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CITY OF MAGEE MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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**CITY OF MAGEE, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of the
Board of Aldermen, and City Clerk
City of Magee, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Magee, Mississippi, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on the Governmental Activities

As discussed in Note 5 to the financial statements, management has not recorded certain general infrastructure assets in governmental activities and, accordingly, has not recorded depreciation expense on assets. Accounting principles generally accepted in the United States of America require that assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position and expenses of the governmental activities is not reasonably determinable.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the previous paragraph, the financial statements referred to above do not present fairly, the financial position of the governmental activities of the City of Magee, Mississippi, as of September 30, 2017, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activities, each major fund and the aggregate remaining fund information of the City of Magee, Mississippi, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the Employer's Proportionate Share of the Net Pension Liability, the Schedule of the City's Contributions, and corresponding notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Omission of Required Supplementary Information

The City of Magee, Mississippi, has omitted the Management's Discussion and Analysis and the Budgetary Comparison Schedule and corresponding notes that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

The Schedule of Surety Bonds for Municipal Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report September 18, 2018, on our consideration of the City of Magee, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Magee, Mississippi's internal control over financial reporting and compliance.

Herzog CPA Company, PLLC

Herzog CPA Company, PLLC
September 18, 2018

City of Magee
Statement of Net Position
September 30, 2017

EXHIBIT 1

Assets	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash and Cash Equivalents	\$ 1,908,139	\$ 253,206	\$ 2,161,345
Receivables (net of uncollectibles):			
Accounts	386,013	81,432	467,445
Fines Receivable (net of allowance for uncollectibles of \$3,518,004)	1,236,055	-	1,236,055
Due from Other Funds	673,119	13,119	686,238
Property Tax Receivable	961,115	-	961,115
Prepaid Expenses	13,344	-	13,344
Other Receivables	8,285	-	8,285
Total Current Assets	<u>5,186,070</u>	<u>347,757</u>	<u>5,533,827</u>
Noncurrent Assets			
Restricted Cash	-	76,270	76,270
Capital Assets:			
Land	139,970	-	139,970
Buildings	3,704,567	19,844	3,724,411
Improvements Other Than Buildings	7,223,644	83,252	7,306,896
Mobile Equipment	3,609,432	1,273,118	4,882,550
Water and Sewer Lines and Facilities Infrastructure	6,633,496	7,430,482	7,430,482
Less: Accumulated Depreciation	(109,207)	(7,047,355)	(7,156,562)
Net Capital Assets	<u>21,201,902</u>	<u>1,759,341</u>	<u>22,961,243</u>
Total Noncurrent Assets	<u>21,201,902</u>	<u>1,835,611</u>	<u>23,037,513</u>
Other Assets	-	36,811	36,811
Total Assets	<u>26,387,972</u>	<u>2,220,179</u>	<u>28,608,151</u>
Deferred Outflows of Resources			
Deferred Outflows Related to Pension	690,339	60,492	750,831
Total Deferred Outflows of Resources	<u>690,339</u>	<u>60,492</u>	<u>750,831</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 27,078,311</u>	<u>\$ 2,280,671</u>	<u>\$ 29,358,982</u>

The notes to the financial statements are an integral part of this statement.

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City of Magee, Mississippi
Statement of Net Position
September 30, 2017

Page 2
EXHIBIT 1

Liabilities	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Current Liabilities			
Claims Payable	\$ 5,609	\$ 9,131	\$ 14,740
Due to Other Funds	507,980	178,258	686,238
Current Portion of Capital Related Long-term Debt	326,745	33,517	360,262
Other Payable	21,080	-	21,080
Total Current Liabilities	861,414	220,906	1,082,320
Non-Current Liabilities			
Compensated Absences Payable	92,335	12,386	104,721
Customer Deposits	-	76,270	76,270
Long-term Capital Related Long-term Debt			
Due in more than one year	3,225,172	351,373	3,576,545
Net Pension Liability	4,890,997	428,489	5,319,486
Total Noncurrent Liabilities	8,208,504	868,518	9,077,022
Total Liabilities	9,069,918	1,089,424	10,159,342
Deferred Inflows of Resources			
Deferred Inflows Related to Pension	81,599	7,159	88,758
Unearned Revenue-Property Taxes	961,115	-	961,115
Total Deferred Inflows of Resources	1,042,714	7,159	1,049,873
Total Liabilities and Deferred Inflows of Resources	10,112,632	1,096,583	11,209,215
Net Position			
Net Investment in Capital Assets	17,649,985	1,374,451	19,024,436
Unrestricted	(684,306)	(190,363)	(874,669)
Total Net Position	16,965,679	1,184,088	18,149,767
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 27,078,311	\$ 2,280,671	\$ 29,358,982

The notes to the financial statements are an integral part of this statement.

City of Magee
Statement of Activities
For the Year Ended September 30, 2017

EXHIBIT 2

Function/Programs:	Expenses	Program Revenues			Governmental Activities	Business-Type Activities	Total
		Charges for Services	Operating Grants	Capital Grants			
Governmental Activities:							
General Government	\$ (880,458)	\$ -	\$ -	\$ -	\$ (880,458)	\$ -	\$ (880,458)
Public Safety	(1,468,624)	-	51,302	-	(1,417,322)	-	(1,417,322)
Public Works	(469,862)	-	-	-	(469,862)	-	(469,862)
Culture and Recreation	(626,920)	-	25,000	146,903	(455,017)	-	(455,017)
Interest and Fiscal Charges on Long-term Debt	(112,969)	-	-	-	(112,969)	-	(112,969)
Pension Expense	(625,664)	-	-	-	(625,664)	-	(625,664)
Total Governmental Activities	(4,184,497)	-	76,302	146,903	(3,961,292)	-	(3,961,292)
Business-Type Activities:							
Water, Sewer, and Garbage	(846,532)	869,441	-	-	-	22,909	22,909
Total Functions/Programs	\$ (5,031,029)	\$ 869,441	\$ 76,302	\$ 146,903	\$ (3,961,292)	\$ 22,909	\$ (3,938,383)
General Revenues:							
Property Tax					\$ 933,828	\$ -	\$ 933,828
Franchise Tax					123,091	-	123,091
Sales Tax					2,533,261	-	2,533,261
Licenses and Permits					107,613	-	107,613
Intergovernmental, Not Restricted to Specific Functions/Programs					109,455	-	109,455
Fines and Forfeitures					678,216	-	678,216
Other Revenue					136,174	10,279	146,453
Total General Revenues					4,621,638	10,279	4,631,917
Change in Net Position					660,346	33,188	693,534
Net Position - Beginning					16,137,508	1,150,900	17,288,408
Prior Period Adjustment					167,825	-	167,825
Net Position - As Restated					16,305,333	1,150,900	17,456,233
Net Position - Ending					\$ 16,965,679	\$ 1,184,088	\$ 18,149,767

The notes to the financial statements are an integral part of this statement.

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**City of Magee
Balance Sheet
Governmental Funds
September 30, 2017**

EXHIBIT 3

	General Fund	Recreation Bond Fund	Sports Complex Bond Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1,277,741	\$ 60,808	\$ 428,516	\$ 141,074	\$ 1,908,139
Accounts Receivable	384,731	-	-	1,282	386,013
Fines Receivable - Net	1,236,055	-	-	-	1,236,055
Property Tax Receivable	813,251	-	-	147,864	961,115
Prepaid Expenses	13,344	-	-	-	13,344
Due from Other Funds	504,524	-	-	168,595	673,119
Other Receivables	-	-	-	8,285	8,285
Total Assets	\$ 4,229,646	\$ 60,808	\$ 428,516	\$ 467,100	\$ 5,186,070
LIABILITIES					
Liabilities					
Claims Payable	\$ 5,452	\$ -	\$ -	\$ 157	\$ 5,609
Other Payables	21,080	-	-	-	21,080
Due to Other Funds	57,777	-	-	450,203	507,980
Total Liabilities	84,309	-	-	450,360	534,669
Deferred Inflows of Resources					
Property Tax for Future Reporting Period	813,251	-	-	147,864	961,115
Unavailable Revenue-Fines	1,236,055	-	-	-	1,236,055
Total Deferred Inflows of Resources	2,049,306	-	-	147,864	2,197,170
Total Liabilities and Deferred Inflows of Resources	2,133,615	-	-	598,224	2,731,839
FUND BALANCE					
Nonspendable					
Prepaid Items	13,344	-	-	-	13,344
Unassigned	2,082,687	-	-	(131,124)	1,951,563
Restricted					
Culture and Recreation	-	60,808	428,516	-	489,324
Total Fund Balance	2,096,031	60,808	428,516	(131,124)	2,454,231
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 4,229,646	\$ 60,808	\$ 428,516	\$ 467,100	\$ 5,186,070

The notes to the financial statements are an integral part of this statement.

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City of Magee
Reconciliation of the Balance Sheet
to the Statement of Net Position
Governmental Funds
September 30, 2017

EXHIBIT 3.1

Fund Balances - Total Governmental Funds	\$ 2,454,231
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>	
Governmental Capital Assets, Net	21,201,902
<p>Other long-term assets are not available to pay for current period expenditures and, therefore are deferred in the funds.</p>	
	1,236,055
<p>Deferred outflows related to pension liability are applicable to future periods, and, therefore are not reported in the funds.</p>	
	690,339
<p>Deferred inflows related to pension liability are applicable to future periods, and, therefore are not reported in the funds.</p>	
	(81,599)
<p>Net pension obligations are not due and payable in the current period, and, therefore are not reported in the funds.</p>	
	(4,890,997)
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.</p>	
Bonds Payable	(3,435,000)
Capital Leases Payable	(116,917)
Compensated Absences	(92,335)
	(3,644,252)
Net Position of Governmental Activities	<u>\$ 16,965,679</u>

The notes to the financial statements are an integral part of this statement.

City of Magee
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2017

Exhibit 4

	General Fund	Recreation Bond Fund	Sports Complex Bond Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 789,238	\$ -	\$ -	\$ 144,590	\$ 933,828
Licenses and Permits	230,704	-	-	-	230,704
Intergovernmental	2,456,849	74,571	262,169	72,332	2,865,921
Fines and Forfeitures	595,238	-	-	-	595,238
Miscellaneous	65,597	42,237	447	27,893	136,174
Total Revenues	<u>4,137,626</u>	<u>116,808</u>	<u>262,616</u>	<u>244,815</u>	<u>4,761,865</u>
EXPENDITURES					
Current:					
General Government	997,055	-	-	42,253	1,039,308
Public Safety	1,729,883	-	-	-	1,729,883
Public Works	518,642	-	-	25,856	544,498
Culture and Recreation	561,895	-	-	-	561,895
Capital Improvements	118,680	1,163,959	-	88,861	1,371,500
Debt Service:					
Principal	60,727	-	155,000	120,000	335,727
Interest and Fiscal Charges	2,468	-	90,793	19,708	112,969
Total Expenditures	<u>3,989,350</u>	<u>1,163,959</u>	<u>245,793</u>	<u>296,678</u>	<u>5,695,780</u>
Excess of Revenues Over Expenditures	<u>148,276</u>	<u>(1,047,151)</u>	<u>16,823</u>	<u>(51,863)</u>	<u>(933,915)</u>
OTHER FINANCING SOURCES AND (USES)					
Transfers In	-	-	-	20,000	20,000
Transfers Out	(20,000)	-	-	-	(20,000)
Total Other Financing Sources	<u>(20,000)</u>	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>-</u>
Net Change in Fund Balances	<u>128,276</u>	<u>(1,047,151)</u>	<u>16,823</u>	<u>(31,863)</u>	<u>(933,915)</u>
Fund Balances - Beginning	1,799,930	1,107,959	411,693	(99,261)	3,220,321
Prior Period Adjustment	167,825	-	-	-	167,825
Fund Balances - As Restated	<u>1,967,755</u>	<u>1,107,959</u>	<u>411,693</u>	<u>(99,261)</u>	<u>3,388,146</u>
Fund Balances - Ending	<u>\$ 2,096,031</u>	<u>\$ 60,808</u>	<u>\$ 428,516</u>	<u>\$ (131,124)</u>	<u>\$ 2,454,231</u>

The notes to the financial statements are an integral part of this statement.

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City of Magee
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended September 30, 2017

EXHIBIT 4.1

Net Change in Fund Balances - Total Governmental Funds **\$ (933,915)**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of these assets is depreciated over their estimated useful lives.

Expenditures for Capital Assets	1,371,500
Depreciation Expense	(109,207)

Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting. 82,978

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Principal Payments	335,727
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Some expenses in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in Long-term Compensated Absences	11,731
--	--------

Some items reported in the Statement of Activities relating to the implementation of GASB 68 are not reported in the governmental funds. These activities include:

Recording of pension expense for the current period	(625,664)
Recording of contributions made subsequent to the measurement date	68,845
Recording of reduction in pension expense for amounts included in net pension liability	458,351

Change in Net Position of Governmental Activities	<u>\$ 660,346</u>
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The notes to the financial statements are an integral part of this statement.

**City of Magee
Statement of Net Position
Proprietary Funds
September 30, 2017**

EXHIBIT 5

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
ASSETS	
Current Assets	
Cash	\$ 253,206
Accounts Receivable	81,432
Due from other Funds	13,119
Total Current Assets	<u>347,757</u>
Noncurrent Assets	
Restricted Cash and Cash Equivalents	76,270
Capital Assets	
Property, Plant, and Equipment, Net of Accumulated Depreciation	1,759,341
Other Assets	36,811
Total Noncurrent Assets	<u>1,872,422</u>
Total Assets	<u>2,220,179</u>
Deferred Outflows of Resources	
Deferred Outflows Related to Pension	60,492
Total Deferred Outflows of Resources	<u>60,492</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 2,280,671</u>
LIABILITIES	
Current Liabilities	
Claims Payable	\$ 9,131
Due to Other Funds	178,258
Notes Payable-Current Portion	33,517
Total Current Liabilities	<u>220,906</u>
Noncurrent Liabilities	
Compensated Absences Payable	12,386
Customer Deposits	76,270
Long-term Debt	351,373
Net Pension Liability	428,489
Total Noncurrent Liabilities	<u>868,518</u>
Total Liabilities	<u>1,089,424</u>
Deferred Inflows of Resources	
Deferred Inflows Related to Pension	7,159
Total Deferred Inflows of Resources	<u>7,159</u>
Total Liabilities and Deferred Inflows of Resources	<u>1,096,583</u>
NET POSITION	
Net Investment in Capital Assets	1,374,451
Unrestricted	(190,363)
Total Net Position	<u>1,184,088</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 2,280,671</u>

The notes to the financial statements are an integral part of this statement.

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City of Magee
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2017

EXHIBIT 6

	Enterprise Fund
	Water & Sewer
Operating Revenues:	
Charges for Services	\$ 869,441
Miscellaneous Income	9,886
Total Operating Revenue	879,327
Operating Expenses:	
Personnel Services	290,520
Contractual Services, Materials, and Supplies	236,452
Other Services and Charges	141,110
Depreciation	158,797
Total Operating Expenses	826,879
Operating Income	52,448
Nonoperating Revenues (Expenses):	
Interest Income	393
Interest Expense	(19,653)
Total Nonoperating Revenues (Expenses)	(19,260)
Change in Net Position	33,188
Net Position - Beginning	1,150,900
Net Position - Ending	\$ 1,184,088

The notes to the financial statements are an integral part of this statement.

City of Magee
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2017

EXHIBIT 7

	Enterprise Fund
	Water & Sewer
CASH FLOWS OPERATING ACTIVITIES:	
Cash received from customers and users	\$ 874,290
Cash payments to suppliers	(389,273)
Cash payments to employees	(380,901)
Net cash provided by operating activities	104,116
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal paid on long-term debt	(67,979)
Interest expense	(19,653)
Net cash (used) by capital and related financing activities	(87,632)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest received on money market account	393
Net cash provided by investing activities	393
Net increase in cash and cash equivalents	16,877
Cash and cash equivalents, October 1	312,599
Cash and cash equivalents, September 30	\$ 329,476
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income	\$ 52,448
Adjustment:	
Depreciation expense	158,797
Changes in assets and liabilities:	
(Increase) in accounts receivable	(5,037)
Decrease in due from other funds	1,135
(Increase) in deferred outflows related to pension	(8,972)
Increase in deferred inflows related to pension	6,369
(Decrease) in accounts payable	(11,711)
(Decrease) in due to other funds	(109,501)
Increase in customer deposits	7,630
Increase in compensated absences payable	1,715
Increase in pension liability	11,243
Total adjustments	51,668
Net cash provided by operating activities	\$ 104,116

The notes to the financial statements are an integral part of this statement.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City operates under a Mayor/Aldermen form of government and provides the following services as authorized by its charter: public safety (police and volunteer fire protection), highways and streets, sanitation, culture and recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America, as applicable to local governmental units, (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB pronouncements issued after November 30, 1989 to its business-type activities or enterprise funds. The most significant of the City's accounting policies are described below.

A. Government-wide and Fund Financial Statements

The government-wide and fund financial statements along with the notes to the financial statements comprise the basic financial statements.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which direct expenses of a given function or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods and services provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Franchise and utility taxes, state revenue sharing, charges for garbage and water service, fines and forfeitures, and investment earnings associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

C. Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The following is a summary of the City's funds by fund type:

GOVERNMENTAL FUNDS: Governmental Funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

- The *General Fund* is the primary operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

PROPRIETARY FUNDS: Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The City's proprietary fund is an enterprise fund. Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The City's enterprise fund is a major fund.

- The *Water, Sewer, and Garbage Fund* accounts for the provision of water, sewer, and garbage services to customers within the service area.

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City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Capital Assets

Property and equipment purchased or acquired are carried at historical cost or estimated historical cost.

Contributed assets are recorded at fair market value as of the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Pursuant to GASB Statement 34, small governmental entities (less than \$10 million in annual revenue) are not required to retroactively state the values of infrastructure purchased or constructed in prior years. Therefore, infrastructure acquired prior to October 1, 2002 has not been recorded, unless the value was already included in the City's inventory of capital assets.

Depreciation has not been provided for governmental activities.

Depreciation has been provided for proprietary funds using the straight-line method, over the following estimated useful lives:

Building & Improvements	30-40 Years
Machinery & Equipment	3-10 Years

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the proprietary fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

F. Receivables

Receivables are reported net of allowances for uncollectible accounts, where applicable.

G. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed as an extension of formal budgetary integration.

H. Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer utility services. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund.

J. Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The city has incurred deferred outflows that are related to pension reporting.

K. Compensated Absences

It is the City's policy to permit employees to accumulate a limited amount of earned but unused vacation leave, which will be paid to employees upon separation from service to the City. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. For governmental activities, an accrual of \$92,335 was reported. For business type activities, an accrual of \$12,386 was reported.

L. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows are property tax unearned revenue and deferred inflows that are related to pension reporting.

M. Equity Classifications

Government-wide Financial Statements:

Equity is classified as net position and displayed in three components:

Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvements of those assets.

Restricted net position - Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net position - All other net position not meeting the definition of "restricted" or "net investment in capital assets."

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

M. Equity Classifications-Continued

Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Government fund balance is classified as nonspendable, restricted, committed, assigned, or unassigned. The following are descriptions of fund classifications used by the City:

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portions of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the City's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned or unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the City's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

N. Surety Bonds

Surety bond coverage meets the legal requirements for the year ended September 30, 2017.

O. Mississippi Municipal Compliance Questionnaire

The Mississippi Municipal Compliance Questionnaire was completed and entered into the City's Minute Book as prescribed by law.

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City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 2 – PRIOR PERIOD ADJUSTMENT

A summary of the significant fund equity adjustments is as follows:

Exhibit 2- Statement of Activities and Exhibit 4-
Statement of Revenues Expenditures and
Changes in Fund Balances

<u>Explanation</u>	<u>Amount</u>
To adjust beginning accounts receivable	\$ 167,825

NOTE 3 – CASH AND INVESTMENTS

The City deposits funds in financial institutions selected by the Board of Aldermen in accordance with state statutes. Various restrictions on deposits are imposed by statutes.

Code Sec. 21-33-323 allows municipalities to invest their surplus funds. The City may only invest in direct obligations of the United States, or the State of Mississippi, or certain local Mississippi governments. They may also invest in certificates of deposit from municipal depositories or State of Mississippi depositories located within the municipality. There is no authority to invest in mutual funds or brokerage firm accounts.

The collateral for public entities' deposit in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The City's deposits, which include all cash accounts and certificates of deposits, with a carrying value of \$2,161,345 and a bank balance of \$2,378,203 at September 30, 2017, are covered by federal depository insurance and by deposits held in banks that are members of the State of Mississippi's Collateral Pool.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 4 – INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund balances at September 30, 2017:

A. Due From/To Other Funds:

Major Funds:

<u>Due From:</u>	<u>Due To:</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 450,203
Other Governmental Funds	Enterprise	168,595
General	Enterprise	9,663
General	General	44,658
Enterprise	General	13,119
Total Interfund Receivables		<u>\$ 686,238</u>

The interfund receivables and payables were the result of loans between funds.

B. Transfers In/Out:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount/Purpose</u>
Other Governmental Funds	General Fund	\$ 20,000
		<u>\$ 20,000</u>

Transfers were the result of reimbursements between funds.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 5 – CAPITAL ASSETS

The following is a summary of changes in capital assets during the year ended September 30, 2017:

	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Governmental Activities:					
<i>Capital assets not being depreciated:</i>					
Land	\$ 139,970	\$ -	\$ -	\$ -	\$ 139,970
<i>Capital assets being depreciated:</i>					
Buildings	3,704,567	-	-	-	3,704,567
Improvements other than buildings	5,887,144	1,336,500	-	-	7,223,644
Mobile equipment	3,574,432	35,000	-	-	3,609,432
Infrastructure	6,633,496	-	-	-	6,633,496
Total capital assets being depreciated	19,799,639	1,371,500	-	-	21,171,139
Less accumulated depreciation	-	(109,207)	-	-	(109,207)
Total capital assets being depreciated, net	19,799,639	1,262,293	-	-	21,061,932
Governmental activities capital assets, net	19,939,609	1,262,293	-	-	21,201,902
	Beginning Balance	Increases	Decreases	Adjustments	Ending Balance
Business-type Activities:					
<i>Capital assets being depreciated:</i>					
Buildings	\$ 19,844	\$ -	\$ -	\$ -	\$ 19,844
Improvements other than buildings	83,252	-	-	-	83,252
Water and sewer lines and facilities	7,430,482	-	-	-	7,430,482
Mobile equipment	1,273,118	-	-	-	1,273,118
Total capital assets being depreciated	8,806,696	-	-	-	8,806,696
Less accumulated depreciation	(6,888,558)	(158,797)	-	-	(7,047,355)
Business-type activities capital assets, net	\$ 1,918,138	\$ (158,797)	\$ -	\$ -	\$ 1,759,341

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City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 5 – CAPITAL ASSETS - Continued

Certain general infrastructure assets have not been recorded for governmental functions.

Depreciation expense was changed to functions/programs of the primary government as follows:

Governmental Activities:	Amount
Public Safety	\$ 11,449
Culture and Recreation	97,758
Total Depreciation expense - Governmental Activities	\$ 109,207
Business-Type Activities:	
Water and Sewer and Garbage	\$ 158,797
Total Depreciation expense - Business-Type Activities	\$ 158,797

NOTE 6 – LONG-TERM DEBT

The amount of general obligation debt that can be incurred is limited by State statute. The City was within those limits for the year ended September 30, 2017.

On January 1, 2006, the City issued \$1,345,000 of general obligation bonds for the purpose of retiring the 1981 FMHA Water Bonds and the 1990 FMHA Water Bonds. These bonds mature in various amounts through 2026, and carry various interest rates ranging from 3.60 to 4.45%.

On June 1, 2012 the City issued \$1,500,000 of general obligation bonds for the purpose of street improvements. These bonds mature in various amounts through 2024 and carry various interest rates ranging from 1.60 to 2.25%.

Refunding:

On December 17, 2015, the City issued \$2,800,000 in Special Obligation Bonds with an average interest rate of 3.12% to refund \$1,455,000 of the following outstanding bond issue:

2008 Recreational Facilities Bond	1.92%	\$1,455,000
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The City refunded the above bonds to provide funding for the expansion and improvement of the Sports Complex.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 6 – LONG-TERM DEBT - Continued

Capital Leases

The City has nine equipment leases with maturity dates in 2019, 2020, and 2021.

Notes Payable

The City has a 1.66% negotiable note in the amount of \$30,979 for water improvements. Yearly payments will continue through 2018.

The City also has a 2.00% cap loan for water well repairs. Yearly payments will continue through 2023.

The following is a summary of changes in long-term debt transactions for the year ended September 30, 2017:

	Balance 10/1/2016	Additions	Reductions	Balance 9/30/2017	Balance Due Within one Year
<u>Governmental Activities:</u>					
Compensated Absences	\$ 104,066	\$ -	\$ (11,731)	\$ 92,335	\$ -
Lease Obligations Payable	177,644	-	(60,727)	116,917	46,745
General Obligation Bonds	1,065,000	-	(120,000)	945,000	120,000
Special Obligation Bonds	2,645,000	-	(155,000)	2,490,000	160,000
Total Governmental Activities	3,991,710	-	(347,458)	3,644,252	326,745
<u>Business-Type Activities:</u>					
<u>Major Enterprise Fund:</u>					
Compensated Absences Payable	10,671	1,715	-	12,386	-
Notes Payable	77,869	-	(32,979)	44,890	33,517
Revenue Bonds	375,000	-	(35,000)	340,000	-
Total Business-Type Activities	463,540	1,715	(67,979)	397,276	33,517
Total Long-Term Debt	\$ 4,455,250	\$ 1,715	\$ (415,437)	\$ 4,041,528	\$ 360,262

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City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 6 – LONG-TERM DEBT – Continued

The following is a schedule by years of the total capital lease payments due as of September 30, 2017:

Year	<u>Governmental-type Activities</u>	
	Principal	Interest
2018	\$ 46,745	\$ 2,356
2019	39,507	1,215
2020	24,520	445
2021	6,145	49
Total	<u>\$ 116,917</u>	<u>\$ 4,065</u>

The annual debt service requirements to maturity for all long-term debt are detailed below:

Year Ending	<u>Governmental-type Activities</u>		<u>Business-type Activities</u>		
	30-Sep	Principal	Interest	Principal	Interest
2018	\$	280,000	\$ 102,852	\$ 33,517	\$ 17,157
2019		290,000	97,333	37,590	15,104
2020		295,000	91,620	42,642	13,413
2021		305,000	85,697	42,695	11,712
2022		315,000	77,555	42,750	10,013
2023-2027		1,270,000	258,580	185,696	20,915
2028-2030		680,000	55,000	-	-
Total	\$	<u>3,435,000</u>	<u>\$ 768,637</u>	<u>\$ 384,890</u>	<u>\$ 88,314</u>

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 6 - LONG-TERM DEBT - Continued

Debt outstanding as of September 30, 2017, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>
<u>Governmental Activities:</u>			
A. <u>General Obligation Bonds</u>			
2012 Street Improvements Bonds			
Authorized and issued \$1,500,000;			
Issued date 6/1/12	\$ 945,000	1.60-2.25%	2024
	<u>\$ 945,000</u>		
B. <u>Special Obligation Bonds</u>			
2015 Recreational Facilities Bonds			
Authorized and issued \$2,800,000;			
Issued date 12/17/15	\$ 2,490,000	2.25-4.00%	2030
	<u>\$ 2,490,000</u>		
C. <u>Capital Leases</u>			
Dodge Charger, Chevy Truck & Mower	\$ 21,168	2.55%	2019
F250 Truck	12,662	2.73%	2019
Street Sweeper	26,934	2.50%	2020
Kubota Tractor and 2015 Dodge Ram	19,724	2.25%	2020
Sewer Machine	36,429	2.40%	2021
	<u>\$ 116,917</u>		
<u>Business-Type Activities:</u>			
A. <u>Notes Payable</u>			
Negotiable Notes, Series 2012			
	\$ 30,979	1.66%	2018
	<u>\$ 30,979</u>		
B. <u>Cap Loan</u>			
Water Well #6 Repairs			
	\$ 13,911	2.00%	2023
	<u>\$ 13,911</u>		
C. <u>Revenue Bonds</u>			
General Obligation Refunding Bonds, Series 2006			
Authorized and issued \$1,345,000			
Issue date 1/1/06	\$ 340,000	3.60-4.45%	2026
	<u>\$ 340,000</u>		

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 7 – RISK MANAGEMENT

The City has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenditures/expenses. Insurance settlements have not exceeded insurance coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 8– PROPERTY TAXES

Property taxes on real and personal property, exclusive of automobiles, become an enforceable lien on January 1, for the preceding year. Taxes are levied before September 15, and are due before February 1. The City bills and collects its own property taxes, except for automobile ad valorem. The City's levy on automobile taxes is collected by Simpson County and remitted to the City monthly. Simpson County also remits to the City a pro-rata share of road and bridge taxes collected by them. The City levies taxes based on 15% of fair value of property. The City may levy taxes as necessary to meet bonded debt retirement. Tax millage levies for the current fiscal year were as follows:

<u>Fund</u>	<u>Millage</u>	<u>Purpose</u>
General Fund	22.00	General Government
Street Bond Fund	<u>4.00</u>	Debt Service
	<u>26.00</u>	

NOTE 9 – PENSION PLAN OBLIGATIONS

General Information about the Pension Plan

Plan Description

The City of Magee is a member of the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple employer defined benefit pension plan as defined in GASB Statement Number 68, Accounting and Financial Reporting for Pensions. Membership in PERS is a condition of employment and is granted upon hiring for qualifying employees of the City. Code Section 25-11-15, Mississippi Code Ann. (1972) grants the authority for general administration and proper operation of PERS to the PERS Board of Trustees (PERS Board). PERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.pers.ms.gov.

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City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 9 – PENSION PLAN OBLIGATIONS - Continued

Benefits Provided

For the cost-sharing plan, participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled upon application, to annual retirement allowance payable monthly for life in an amount equal to 2.00% of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.50% for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary. Benefits are established by Section 25-11-1 et seq., Mississippi Code Ann. (1972) and may be amended only by the State Legislature.

A Cost of Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.00% of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.00% compounded for each fiscal year thereafter.

Contributions

Per Chapter 11 of Title 25, Mississippi Code Ann. (1972), contribution requirements of plan members and their employers are established and may be amended only by the PERS Board. The adequacy of the rates is assessed annually by actuarial valuation. For the years ended September 30, 2017, member employees were required to contribute 9.00 percent of their annual pay, while the City's required contribution rate was 15.75 percent of annual covered payroll. The City's employer contributions to PERS for the year ended September 30, 2017, 2016, and 2015 were \$313,666, \$302,621 and \$279,856 (employer share). The contributions for the year met the required contributions.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2017, the City of Magee reported a liability of \$5,319,486 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates, the City of Magee's proportion of the net pension liability was based on employer contributions to PERS for the plan's fiscal year ended June 30, 2017, relative to the total employer contributions of participating employers to PERS. At June 30, 2017, the City of Magee's proportion was .032%, which was an increase of .003% from its proportion measured as of June 30, 2016.

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 9 – PENSION PLAN OBLIGATIONS - Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions-Continued

For the year ended September 30, 2017, the City of Magee, recognized pension expense of \$680,574. At September 30, 2017, the City of Magee reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 54,463	\$ 27,661
Net difference between projected and actual earnings on pension plan investments	-	54,639
Changes in assumptions	84,257	6,459
Changes in proportion and differences between the City's Contributions and Proportionate Share of Contributions	537,222	
Contributions subsequent to the measurement date	74,889	-
	\$ 750,831	\$ 88,759

At September 30, 2017, the City of Magee reported \$74,889 as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending September 30	Amount
2018	\$ 187,931
2019	187,931
2020	165,998
2021	45,323
	\$ 587,183

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City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 9 – PENSION PLAN OBLIGATIONS – Continued

Actuarial Assumptions

The total pension liability used in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions and other inputs:

Inflation	3.00%
Salary increases	3.75%-18.50%, average, including inflation
Investment rate of return	7.75%, net of position of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, set forward one year for males with adjustments.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2012 through June 30, 2016. The experience report is dated April 18, 2017.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation Percentage</u>	<u>Long-term Expected Real Rate of Return</u>
U. S. Broad	27.00 %	4.60 %
International equity	18.00	4.50
Emerging markets equity	4.00	4.75
Global	12.00	4.75
Fixed income	18.00	.75
Real estate	10.00	3.50
Private equity	8.00	5.10
Emerging debt	2.00	2.25
Cash	1.00	0.00
	<u>100.00 %</u>	

City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 9 – PENSION PLAN OBLIGATIONS – Continued

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate (9.00%) and that participating employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City of Magee's Proportionate share of the Net Pension Liability to changes in the Discount Rate

The City of Magee's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents the City of Magee's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Proportionate share of the net pension liability	\$ 6,976,861	\$ 5,319,486	\$ 3,943,505

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued comprehensive annual financial report which can be obtained at www.pers.ms.gov.

Payable to the Pension Plan

At September 30, 2017, the City of Magee has no amounts payable for outstanding contributions to the pension plan required for the year ended September 30, 2017.

NOTE 10 – EFFECT OF DEFERRED AMOUNTS ON NET POSITION

The governmental activities' unrestricted net position amount of \$(684,306) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$74,889 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. The \$675,942 balance of the deferred outflow of resources related to pensions at September 30, 2017, will be recognized in pension expense over the next four years. The \$88,759 balance of the deferred inflow of resources related to pension at September 30, 2017, will be recognized in pension expense over the next four years.

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City of Magee, Mississippi
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 11 – FEDERAL AND STATE GRANTS

In normal course of operations, the City receives grant funds from various Federal and state agencies. The grant programs are subject to audit by agents of the granting authorities. The purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 12 – SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the City of Magee, Mississippi evaluated the activity of the City through September 18, 2018, (the date the financial statements were available to be issued) and determined that no subsequent events require disclosure in the notes to the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

City of Magee, Mississippi
Schedule of the City's Proportionate
Share of the Net Pension Liability
For the Years Ended September 30, 2017, 2016, 2015, and 2014

	2017	2016	2015	2014
Employer's proportion of the net pension liability (asset)	.032%	.029%	.028%	.029%
Employer's proportionate share of the net pension liability (asset)	\$ 5,319,486	\$ 5,180,124	\$ 4,328,248	\$ 3,520,069
Employer's covered payroll	\$ 1,991,530	\$ 1,921,403	\$ 1,776,863	\$ 1,769,137
Employer's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	267.11%	269.60%	243.59%	198.97%
Plan fiduciary net position as a percentage of the total pension liability	61.49%	57.47%	61.70%	67.21%

Information above is presented as of the measurement date of June 30 of the fiscal year presented.

Information is not currently available for prior years; additional years will be displayed as they become available.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 9/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

See the Notes to the Required Supplementary Information.

City of Magee, Mississippi
Schedule of the City's Contributions
For the Years Ended September 30, 2017, 2016, 2015, and 2014

	2017	2016	2015	2014
Contractually required contribution	\$ 313,666	\$ 302,621	\$ 279,856	\$ 278,639
Contributions in relation to the contractually required	<u>(313,666)</u>	<u>(302,621)</u>	<u>(279,856)</u>	<u>(278,639)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Employer's covered payroll	\$ 1,991,530	\$ 1,921,403	\$ 1,776,863	\$ 1,769,137
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%	15.75%

Information above is presented as of the City's fiscal year.

Information is not currently available for prior years; additional years will be displayed as they become available.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 9/30/15, and, until a full 10-year trend is compiled, the City has only presented information for the years in which information is available.

See the Notes to the Required Supplementary Information.

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City of Magee, Mississippi
Notes to the Required Supplementary Information-Unaudited
For the Year Ended September 30, 2017

a. Schedule of the Employer's Proportionate Share of the Net Pension Liability and Schedule of the City's Contributions.

Changes in Assumptions.

2017

- The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.
- The wage inflation assumption was reduced from 3.75% to 3.25%.
- Withdrawal rates, pre-retirement mortality rates, disability rates, and service retirement rates were also adjusted to more closely reflect actual experience.
- The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

2016

- The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

2015

- The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than RP-2000 Mortality Table, which was used prior to 2015.
- The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.
- Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
- Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.
- The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

Changes in Benefit Provisions.

2016

- Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each proceeding year with a minimum rate of one percent and a maximum rate of five percent.

OTHER INFORMATION

City of Magee, Mississippi
Schedule of Surety Bonds of Municipal Officials and Others-Unaudited
September 30, 2017

<u>Name</u>	<u>Position</u>	<u>Bond Amount</u>	<u>Bonding Company</u>
Joe Worrell	Building Inspector	50,000	Western Surety
Ashley Steele	Airport Manager	50,000	Western Surety
Dale Berry	Mayor	100,000	Travelers
Wanda Williams	Deputy Clerk	50,000	Western Surety
Deana Moseley	Deputy Clerk	50,000	Western Surety
Randy Crawford	Police Chief	50,000	EMC
Vernice Floyd	Deputy Clerk	50,000	Western Surety
Layne Yearby	City Clerk	50,000	EMC
Layne Yearby	Tax Collector	50,000	EMC
Brandi Hanna	Deputy Court Clerk	50,000	Western Surety
Faye Runnels	Deputy Clerk	50,000	Western Surety
Rontonagles McNair	Deputy Court Clerk	50,000	Western Surety
Beverly McWilliams	Deputy Court Clerk	50,000	Western Surety
Angel Brister	Alderman	100,000	Travelers
Whitney Baker	Alderman	100,000	Travelers
Matthew Hickman	Alderman	100,000	Travelers
Lane Steele	Alderman	100,000	Travelers
Patrick Brown	Alderman	100,000	Travelers
Casey Bowen	Deputy Clerk	50,000	Western Surety
Jamie Freeman	Deputy Court Clerk	50,000	Western Surety
Shena Freeman	Deputy Court Clerk	50,000	Western Surety
Paula Harvey	Deputy Court Clerk	50,000	Western Surety
Rebecca Freeman	Deputy Clerk	50,000	Western Surety

SPECIAL REPORTS

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HERZOG CPA COMPANY, PLLC

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE
PRIMARY GOVERNMENT FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Honorable Mayor, Members of the
Board of Aldermen, and City Clerk
Magee, Mississippi

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Magee, Mississippi, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Magee, Mississippi's internal control over financial reporting to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as 2017-001 to be a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Magee, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Magee's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Aldermen, federal awarding agencies, and passes through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Herzog CPA Company, PLLC

Herzog CPA Company, PLLC
September 18, 2018

HERZOG CPA COMPANY, PLLC

Angela T. Herzog, CPA

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INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Honorable Mayor, Members of the
Board of Aldermen, and City Clerk
Magee, Mississippi

We have audited the primary government financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Magee, Mississippi, as of and for the year ended September 30, 2017, and the related notes to the financial statements, and have issued our report thereon September 18, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the procedures prescribed by the Office of the State Auditor, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the City's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures and our audit of the primary government financial statements disclosed no instances of non-compliance with state laws and regulations.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than these specified parties.

Herzog CPA Company, PLLC

Herzog CPA Company, PLLC
September 18, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Magee, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017**

Schedule 1

Section 1: Summary of Auditors' Results

Financial Statements

1. Type of auditors' report issued on the financial statements:

Governmental Activities	Adverse
Business-Type Activities	Unmodified
General Fund	Unmodified
Recreation Bond Fund	Unmodified
Sports Complex Bond Fund	Unmodified
Aggregate remaining fund information	Unmodified

2. Internal Control over financial reporting:

- | | |
|--|---------------|
| A. Material weakness identified? | Yes |
| B. Reportable condition identified that is not considered to be a material weakness? | None reported |

3. Noncompliance material to the financial statements? No

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**City of Magee, Mississippi
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017**

Schedule 1

Section 2: Financial Statement Findings

2017-001. Finding

Significant Deficiency – Material Weakness

Capital asset control procedures are inadequate for maintaining an accurate inventory or adequate subsidiary records documenting the existence, valuation, and completeness of capital assets. Therefore, the Independent Auditors' Report on the Financial Statements is adverse because we were unable to satisfy ourselves as to the fair presentation of the City's capital assets reported for Governmental Activities. We noted the following deficiencies in the policies and procedures of the internal control structure for capital assets:

- a. Records were not available to support the valuation and ownership of the land and buildings.
- b. The City did not properly maintain a capital assets account for leased property under capital leases.
- c. Most assets posted to the fixed asset inventory listing are not listed in detail by item.
- d. Depreciation expense was not recorded.

Recommendation

The City should maintain capital asset records.

Response

The City of Magee concurs with this finding and is working toward a solution.